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Time to put them out to grass? – what to do with the elderly

“UK's aging population is a bigger economic threat than the financial crisis”

Daily Telegraph, 12th February 2010¹

On a very cold February Friday morning, ever so slightly tongue in cheek, the Daily Telegraph attempted to shock its readers with the headline ‘biggest threat’, and the opening gambit: *“Just when you thought it was safe to come out into the open. As if it weren't enough that the euro is crumbling, that the banking sector is still vulnerable; that Britain is steeling itself for its biggest spending squeeze in living memory, along comes Barclays Capital with some really bad news”*. The article claimed that the grey time bomb was finally exploding in pension fund balance sheets. The cost of housing, caring and retirement of a growing number of elderly would see long-dated gilts rising in price rapidly, raising interest rates across the economy as a whole.

But should we really dread aging? Previous generations have considered aging as good. It is what we should all try to do. Premature mortality is bad, it causes misery, it is not a cause for celebration. An aging population can be a happy, friendly, productive and, above all, a cooperative population. So what has changed?

The Barclays Capital sourced story, as reported in the *Telegraph* that cold and snowy day, concerned the suggestion that company pensions would no longer support us as our numbers in old age grew, and that the welfare-state pensions and government

workers' pension funds apparently could not either. The crux of the story was that a Barclays economist was suggesting that government would soon have to pay 10% rather the 4% interest per annum on its long-dated gilts to borrow money and so couldn't afford to run a deficit which included funding state and state-sector pensions at their current levels for much longer.

Long-dated gilts are one of the main mechanisms which the British government uses to raise money. They are IOU's which are not paid back for a long time, but which pay a certain level of interest to the lender each year. The credit crunch has made it harder for governments to borrow, and so they must pay more if they wish to do so. If government has to pay more to borrow money, it will charge banks more to lend them money, through the Bank of England. The gilts partly rise in price as money markets factor in what they see as the increased risk of lending to a country with increased obligations. So far the interest rates had not risen much on these gilts, but the *Telegraph* was reporting that they would.

Nothing was said in the newspaper that day concerning who the government borrowed money from and why these private lenders should soon suddenly get "well over" 10% a year paid in interest for lending a little of their wealth to the nation, rather than the "around" 4% they currently enjoyed. Instead the paper suggested that "...Britons have lived beyond their means, financing it by, in effect, borrowing off future generations...". The paper also mentioned that the privatised British Telecom had a pension deficit that stood at £9bn just so that those outside the state sector should also quake a little. It said nothing of how the company had chosen to 'reward' shareholders rather than maintain its pension pot. The story left you thinking that no reader's retirement was safe.

All this raises questions. Borrowing always takes place from the rich, as they have the money. Future generations do not buy gilts, they don't have anything to lend, they don't exist. The super-rich who buy gilts will do very well in retirement if we all pay them 10% a year for borrowing their money. Even the mildly affluent who purchase in aggregate (through small private pension funds) won't be doing badly. However, we need not borrow so much from the rich. The more we borrow the more they can charge us and the higher interest we have to pay. Instead we could, for example, take

a little more from the affluent and a lot more of it from the super-rich in taxation rather than paying such enormous fees.

A starting point from which to look at the alternatives could be the company that planted the news story we began with, Barclays Capital. How does Barclays Capital, the ‘casino’ part of that bank, make all its cash and where does much of the loot go? Barclays Capital’s boss, Bob Diamond, joined the Board of Barclays Bank itself in 2005 so by law we know what he got as his reward, £23 million a year then². As a result of just how well rewarded he was he became a household name and a man pilloried as being the unacceptable face of banking, but despite all this he also became Barclay’s Chief Executive Officer in 2010, in what was widely reported as a two fingered salute from the City to the Coalition government. Last year his income was reported as a “mere” £42 million, not quite the highest city salary³.

Coalition Business Secretary, Vince Cable, replied to Diamond’s salute with his “spivs and gamblers” speech on 22 September 2010. What Vince Cable said was that the money which casino operation bankers make comes disproportionately from hiking short term profits while damaging the long term interests of business, from speculation rather than properly investing, from being paid according to how much money their banks could extract from others in the short term, not by how much they improved people’s lives.

Bob Diamond, had ‘performance plans’ that allowed him in 2008 alone to receive a £14.8 million bonus, despite his company as a whole having to write off £1.3 billion of loans. For every £88 pounds of net bad decisions made by the bank, decisions that resulted in losses, it looked as if Diamond was being rewarded an extra £1 above his standard salary. If he had ‘invested’ his 2008 bonus in government gilts, then a 4% annual return would give him £592,000 a year to live off.

Not bad you might think. But then, you are almost certainly not a top earning city banker, so who are you to know? A 10% annual return on gilts would give him another £888,000 a year to play with in retirement, £1.48 million in total. That is like winning a million on the lottery every eight months, for ever. And, if the money is coming from having bought gilts with your bonus, the interest is all paid for by tax-

payers. A married pensioner on the basic state pension gets £11 a day to live off, some 364 times less than what a 10% return on a £14.8 million bonus secures⁴.

Reading the *Telegraph's* story I was starting to get a little annoyed about this revelation that we may soon be paying the rich even more to borrow their money but then my eye was distracted. On the on-line edition of the paper, six paragraphs into its text, the flow was interrupted by an information box, where – in bold (and blue text, highlighted for you to ‘click’) it stated:

“Retiring Soon? Visit the Telegraph Retirement Service (UK only) to help you maximise your retirement income”

I clicked the “enquire now” box, adorned with a ‘T’ in the Telegraph’s font. Was this a further news story, or an advertisement? It didn’t look like an advertisement. I had forgotten all about what I know about Bob Diamond and my concerns over why Barclays Capital should be planting stories like this in the Telegraph. All of a sudden what I wanted to know was how would I be affected and what I could do about it – I soon forgot everyone else, rich, poor, claimant or money-lender. Soon there was no such thing as society in my mind – just me and my family.

Immediately I clicked the web button at the bottom of the on-line newspaper story, I was through to “Telegraph Retirement Services”. These ‘services’, a few further clicks revealed, were provided by a company called “Aegon”. I clicked on Aegon’s ‘about us’ box and learnt that they employed 28,000 people and had their own personal finance news service with headlines such as:

- *Do children need pensions?*
- *Parents won't have wealth to pass on, report says*
- *One in four women rely on their husband's pension in retirement*
- *If anyone should be protesting, it's the put-upon private sector*

I was intrigued. I have children, my wife will rely on half of my pension when I die. I clicked each of the stories. It turned out that, headline after headline, these all jumped

back from Aegon's website to the Telegraph's website where, from two stories published on September 15th 2010, we learn that pensions are "...increasingly the responsibility of individuals"⁵ and that that women should "...start making retirement savings plans"⁶; three days later that "...future generations should not expect to inherit wealth from their parents"⁷; and a further two days on that "...grandparents are setting up pensions for their children to combat fears they could end up in poverty in old age."⁸.

Worrying thoughts raced through my head. Do I need a private pension above the one that comes with my job and my state pension? When I die will my wife need a private pension? Should I be trying to take out a private pension for my children? Just how much money should I be sending to Aegon for one of their 28,000 employees to turn into an annuity for me, and for them then to send a little the Telegraph's way too, to pay for the links from their 'infomercials', and a little more maybe to a company like Barclay's Capital for them to 'invest' to create that annuity, for them to use to create press-releases that create these 'news' stories in the first place, oh and a little of that to go towards making up Diamond's bonus. After all, money does not come out of thin air, profits have to be made *from* someone.

Under the on-line version of the "Do children need pensions?" story two comments from *Telegraph* readers were published. The first said "Give them individually purchased shares, a deposit on a house, and some gold pieces. That's a far better option than a pension in the UK". The second just said: "Roll up suckers one and all."⁹. I wondered how long that comment would remain there! But I was very grateful for it. I ticked the 'recommended reading' box – on the comment, not the story. Sadly I was only the second person to do so. Most grandparents buying pensions for their grandchildren will have read the hard-copy version of the paper.

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But, one might note, the elderly population is rising. In the next 19 years, by 2030, the numbers aged over 85 years old are set to double, and the numbers aged over 100 to quadruple¹⁰. So we'll have to deal with diseases of old age far more effectively than we are doing currently, just to stand still. There will be a growing 'army' of young fit elderly able to care for older elderly, but will they be willing or in a good enough financial position to do this¹¹?

In a time of rising austerity, in a nation slipping down in the world rankings of wealth, with these great increases in how many of us there will be over particular ages, how can we be optimistic that all will be fine? Perhaps we should look back to the past a little? Maybe its all a question of more stiff-upper-lip needed, and people being willing to 'sacrifice' a little more? If we just behaved as people in the past behaved, and we all become a little less selfish, perhaps all could be better? Maybe we need to reverse the rise of the "selfish generation"?

I turned to the website of the nation's favourite granny for clues. I was amazed to find that she also doubles as an agony aunt. Her website, the "official website of the British Monarch"¹² – states:

"You can write to Her Majesty at the following address:

Her Majesty The Queen

Buckingham Palace

London SW1A 1AA

"If you wish to write a formal letter, you can open with 'Madam' and close the letter with the form 'I have the honour to be, Madam, Your Majesty's humble and obedient servant'."

*This traditional approach is by no means obligatory. You should feel free to write in whatever style you feel comfortable"*¹³

I resisted the immediate urge to put pen to paper (opting for what made me comfortable) and asking Elizabeth for her thoughts on how those not inheriting a household of servants should plan for their care in their old age? Instead I had a little

delve into the royal website and learnt, amongst much else, that in 1917 only seven men and seventeen women received 100th birthday greetings from King George V; that in her first year in the job, in 1952, just 255 centenarians received a congratulatory message from Elizabeth II; and that by 2007, she was sending out 8,439 such birthday cards and also sending a further 770 to people congratulating them on reaching their 105th birthdays and above. Its worth hanging on – you get more cards, sometimes with slightly different wording:

“The oldest ever recipient of a message from The Queen was a Canadian gentleman, who reached the age of 116 in December 1984, whilst the oldest British recipient was 115, the oldest woman in Britain at the time. Occasionally, twins reach their milestone together. In 2006, three sets of twin sisters and in 2007, twin brothers reaching 100 were recorded by Buckingham Palace. The Anniversaries Office, which is responsible for sending out messages, ensures that each twin receives a slightly different greeting, aware that they will generally be together on their big day and will open their cards at the same time. ... During her reign The Queen has sent approximately 110,000 telegrams and messages to centenarians in the UK and the Commonwealth.”¹⁴

Is such consideration worth every penny of the royal allowance? It is nice to have someone paid to write birthday cards, rather like those folk who are employed to return letters from Santa if you post one to the north pole¹⁵. I’m just not sure that we should carry on having one very well paid person writing all these cards, especially given how many more she, or more likely her successors, will soon have to sign.

Only around 10,000 people are aged 100 as I write, by 2050 this will have increased by 2400%. Assuming all goes to plan, by 2050 King William will have sent out 250,000 cards just to people who were still alive¹⁶. And, if we have not become a republic by then (simply to save on the postage), he’ll have sent out millions of other cards to those who by then will be dead, as well as to the 105, 106, 107 years olds and on and on. This will possibly be more annually than twice the number his granny will have sent in her (projected) very long lifetime.

By 2050 advances in medicine, a better ordered society, even huge amounts of care being provided by the young elderly will not be enough. We'll need more younger people here, if only to help the 68 year old king with his mail bags. And, as far as I can see, we'll need to better share out what we have if we are all to enjoy our retirements, William included. We can still have a service that sends you birthday cards on your hundredth birthday and even one which signs them as if they come from a King, but it could be done a little cheaper¹⁷.

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What is the alternative to easing immigration restrictions? Well, look to Japan. My favourite news headline of summer 2010 was: "Robot suits to aid elderly Japanese farmers with toiling in the fields"¹⁸. The story was that of Prof. Shigeki Toyama of Tokyo University's Agriculture and Technology Graduate School of Engineering. It continued by suggesting that Professor Toyama:

"...is close to perfecting a robot suit that could considerably reduce the physical burden of farm work on elderly farmers. People aged 65 and older are a key pillar of the agricultural work force, accounting for about 60 percent of the agricultural population in Japan. Development of the robot suit may come as welcome news to such elderly farmers....."

Notes to Chapter 1: Introduction –geography matters

¹ Conway, E., 2010, “UK's aging population is a bigger economic threat than the financial crisis”, Daily Telegraph, 12 February,

<http://www.telegraph.co.uk/finance/financetopics/financialcrisis/7216546/UKs-aging-population-is-a-bigger-economic-threat-than-the-financial-crisis.html>

² Treanor, J., 2008, Barclays boss Diamond to bank £14.8m bonus, The Guardian, 8 January,

<http://www.guardian.co.uk/business/2008/jan/08/barclaysbusiness.executivesalaries>

³ Fernandez, C., 2010, Rambler with an interest in Bible studies is the City's highest earner on £60m a year, Daily Mail, 27th September, <http://www.dailymail.co.uk/news/article-1315366/David-Harding-Citys-highest-earner-60m-year.html?ito=feeds-newsxml> (the article also gives the most recent estimate of Bob Diamond's annual salary which is used here).

⁴ The £11 is one half of the married couples' weekly pension of £156.15 further divided by seven days. It is thus only a fraction above what those seeking work are allowed to live on (at £9 a day). Why do we begrudge people living on £9 a day Job Seekers' Allowance (and award pensioners so little) when if someone like Bob were to invest his bonus in government gilts we would be paying him £4060 a day for the privilege?

⁵ Reece, D., 2010, “If anyone should be protesting, it's the put-upon private sector”, Daily Telegraph, 15th September, <http://www.telegraph.co.uk/finance/personalfinance/pensions/8003185/If-anyone-should-be-protesting-its-the-put-upon-private-sector.html>

⁶ Unnamed Telegraph Reporter, 2010, “One in four women rely on their husband's pension in retirement”, Daily Telegraph 15th September, quoting Vince Smith-Hughes, head of pensions development at Prudential:

<http://www.telegraph.co.uk/finance/personalfinance/pensions/8003500/One-in-four-women-rely-on-their-husbands-pension-in-retirement.html>.

⁷ Monaghan, A., 2010, Parents won't have wealth to pass on, report says, 18th September, Daily Telegraph, <http://www.telegraph.co.uk/finance/personalfinance/8010896/Parents-wont-have-wealth-to-pass-on-report.html>

⁸ Greenwood, J., 2010, Do children need pensions?, Daily Telegraph, 20th September, <http://www.telegraph.co.uk/finance/personalfinance/pensions/8013002/Do-children-need-pensions.html>

⁹ “Andrewx” at 10.31pm on the 20th wrote “Give them individually purchased shares, a deposit on a house, and some gold pieces. That's a far better option than a pension in the UK.” While “thistleblister” at 4:42pm had written “Roll up suckers one and all”.

http://www.telegraph.co.uk/finance/personalfinance/pensions/8013002/Do-children-need-pensions.html#disqus_thread (accessed 10am 21st September 2010).

¹⁰ *Ibid* (Royal College of Psychiatrists 2005 Working Group).

¹¹ We will almost all be living a very miserable existence in our dotage if, in our middle age, we do not collectively recast our priorities. How and when and where I come to die, will to a large part depend on what is going on around me socially at that time, on how we all behave, not just on me, and the same

applies to you. By the time we are elderly and frail, how we will be treated will depend mainly on what kind of a society we have nurtured, both to look after us, and to care for future generations.

¹² <http://www.royal.gov.uk/Home.aspx>

¹³ <http://www.royal.gov.uk/HMTheQueen/ContactTheQueen/Overview.aspx>

¹⁴ <http://www.royal.gov.uk/HMTheQueen/Queenandanniversarymessages/Factsandfigures.aspx>

¹⁵ If you are aged under age nine, I am, of course, referring to the elves who live in Lapland and sign the letters on behalf of Santa as he is too busy making sure the reindeer are well fed and watered. Actually, if you are aged around nine and reading this book – go and play outside – now! Learning more about Britain, second hand from books, can wait, as can worrying about your old age.

¹⁶ I find it hard to believe he will still be able to send a telegram as his grandmother could. Maybe he'll send a text? *Ibid* (that 2005 Working Group again), as referred to here <http://www.nmc-uk.org/General-public/Older-people-and-their-carers/Guidance-for-the-care-of-older-people-Facts-and-figures/>

¹⁷ Cheaper than the cost of maintaining a civil list and not taxing the royal palaces and estates. I also wonder, what must it feel like to know that almost everyone you have written a card to is now dead? It can't be good for your psychological wellbeing to act as if you were some kind of higher being.

¹⁸ Mizutani, T., 2010, Robot suits to aid elderly Japanese farmers with toiling in the fields August 24, PhysOrg.Com: <http://www.physorg.com/news201894668.html>